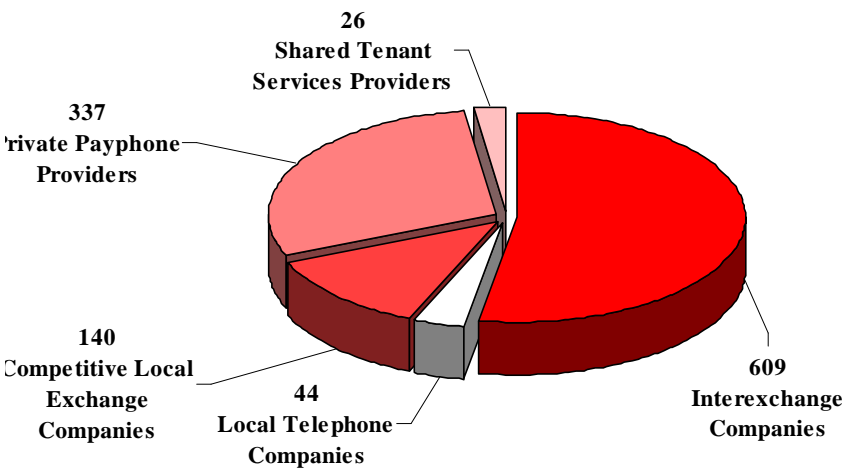


Certificated Telecommunications Providers



Competition for Basic Local Telephone Service in Missouri

Competition for basic local telephone service in Missouri is most noticeable among business customers. Although most competition is primarily located in Missouri’s major metropolitan areas, some competition does occur in more rural areas as well. Since the Commission first authorized basic local telephone competition in January 1997, a total of 80 competitive basic local telephone companies now operate in Missouri. Pursuant to state law, the Commission is currently evaluating the extent to which effective basic local telephone competition exists in Southwestern Bell Telephone Company’s area. In the future, similar investigations are expected to occur for Sprint and Verizon.

Competitors provide basic local telephone service through one of three ways: (1) through resale of the incumbent’s facilities, (2) through the use of a portion of the incumbent’s facilities (called Unbundled Network Elements) or (3) in some circumstances through the use of the competitor’s own telephone or cable television distribution facilities.

As of July 2001, it is estimated that competitors provide service over 408,000 telephone access lines in Missouri, or approximately 12% of Missouri’s approximately 3.4 million access lines.

Southwestern Bell’s Application to Provide InterLATA Long Distance Service in Missouri

Before Southwestern Bell Telephone Company (SWBT) is permitted to enter into the long distance market, the Company must satisfy requirements of the federal Telecommunications Act of 1996 (Act). Pursuant to the Act, the various state utility commissions are required to conduct an evaluation to determine if SWBT has opened its local telephone

markets to competition in each state where it operates. In addition to public interest standards, the Act requires an evaluation of the congressionally mandated 14-point market opening checklist. Although the Federal Communications Commission (FCC) has the final authority, the FCC is required to consult and give substantial consideration to the recommendations of the state commission as well as to the United States Department of Justice (DOJ). Once state and federal authorities have determined that SWBT has met the federally mandated 14-point checklist of market opening conditions, SWBT would be allowed to provide long distance service in Missouri.

After a thorough and extensive investigation, the Missouri Commission on March 15, 2001, recognized SWBT’s market opening efforts and approved SWBT’s application to provide long distance service in Missouri. After receiving this approval, SWBT filed its long distance application with the FCC on April 4, 2001. Due to federal court rulings and other circumstances that occurred after SWBT’s application was evaluated by the Missouri PSC and after the DOJ requested the FCC conduct an independent appraisal of SWBT’s Missouri prices, SWBT withdrew its FCC long distance application on June 7, 2001.

In recognition of the concerns expressed by the DOJ and other parties, as well as to re-evaluate more recent federal court rulings, SWBT agreed to reduce certain prices it charges to competitors for the use of portions of SWBT’s network. After reducing prices

for some items and making other changes to conform to court rulings, SWBT re-filed its long distance application on August 20, 2001. SWBT's application to provide long distance service in Missouri is currently pending before the FCC. If approved, Missouri would join New York, Massachusetts, Kansas, Oklahoma, and Texas as states in which a Bell Telephone Company is authorized to provide long distance service.

Telephone Company Rate Cases in Fiscal Year 2001

The Commission conducted earnings investigations involving eight telephone companies during 2001. Those companies and a brief description of the results of each earnings investigation are as follows:

Green Hills Telephone Company – The Company reduced 911 trunk rates to \$25.00, expanded its local calling to the Richmond community, reduced terminating access rates, made permanent the interim Carrier Common Line (CCL) rate, adopted new depreciation rates, and eliminated an annual amortization amount of \$156,000 from Case No. TM-99-523.

IAMO Telephone Company – The interim CCL rate was made permanent with no refunds, and new depreciation rates were adopted.

Peace Valley Telephone Company – New depreciation rates were adopted and reductions were made to origination and termination access rates.

Holway Telephone Company – New depreciation rates were adopted, reductions were made to originating and terminating access rates and to the existing rates for business and residential basic local telephone service. In addition, the Company implemented new custom calling options and eliminated the charge for touchtone service.

KLM – Interim CCL rates were made permanent and new depreciation rates were adopted.

Oregon Farmers Mutual Telephone Company – New depreciation rates were adopted, switched access rates were restructured and the Company was ordered to complete work on the purchase and installation of circuit equipment by June 30, 2001.

Northeast Missouri Rural Telephone Company – Interim CCL rates were made permanent, access rates were increased and new depreciation rates were adopted.

Ozark Telephone Company – Rate reductions were made to switched access service. Expanded local calling provided to exchanges served by the Goodman and Seneca Telephone Companies.

Revision and Update of PSC Telecommunications Rules

The PSC has proposed the following revisions to its rules regarding telecommunications service:

Chapter 32 – Telecommunications Service
This rule establishes customer disclosure requirements such as point-of-sale materials, which outline all charges incurred when placing a call using a carrier's prepaid calling card. The rule would also require the company to provide notice to the Commission and customer when ceasing operations and would require the company to establish refund policies for services that are rendered unusable beyond the consumer's control. All telecommunications carriers offering prepaid calling card service in Missouri must comply with this rule by March 2002.

Chapter 33 – Service and Billing Practices for Telecommunications Companies
The PSC is proposing revisions to this rule that closely match the FCC's Truth-in-Billing Rules. The proposed revisions should allow consumers to better understand their telecommunications bills, give consumers the ability to control what type of calls are made from their telephone and allow consumers some control over what charges are found on their bill.



Consumer Outreach Programs

The PSC continues to update the “Show-Me-Rates” price comparison center web site <http://www.psc.state.mo.us/teleco-showmerates.asp>. Show-Me-Rates is an on-going project that includes rates for local toll and in-state long distance calls and provides contact information for various competitive local telecommunications companies throughout the state.

The PSC web site also includes telecommunications-specific information to keep the public and industry informed. Such things as LATA maps, area code maps, access rate structures and contact information for competitive local exchange companies can be located under the Telecommunications section of the web page.

The PSC developed brochures to assist consumers in “Understanding Telephone Numbers and Area Codes.” These brochures were distributed at events such as the Missouri State Fair.

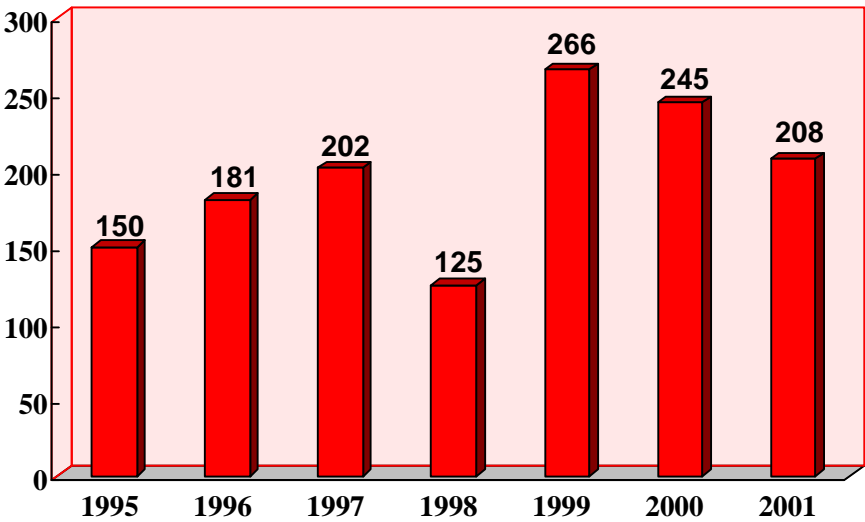
Future endeavors include consumer outreach programs to inform consumers of Lifeline and Link-Up low-income assistance programs for telecommunications services.

Federal Telecommunications Activity

The PSC continues to actively monitor federal telecommunications activity at the FCC and other state commissions. During the past year, the FCC has reviewed and/or acted upon major issues such as the jurisdiction of Internet traffic, intercarrier compensation for Internet traffic, access charge reform for rural telecommunications carriers, number conservation issues and various topics for proposed legislation.

The PSC filed comments in proceedings before the FCC on such issues as technical requirements for a national thousand-block pooling administrator and access charge reform. In March 2001, the FCC

Number of Telecommunications Certificates Granted



granted the PSC additional delegated authority to implement number conservation measures. The PSC continues to monitor the need for conservation measures in Missouri such as implementation of new area code overlays and state thousand-block pooling trials.

Interconnection Agreements

Interconnection Agreements are negotiated or arbitrated “contracts” between two telecommunications carriers. The PSC recently conducted arbitration proceedings between AT&T Communications of the Southwest, Inc. and Southwestern Bell Telephone Company addressing such issues as rates, terms and conditions for unbundled network elements, physical network interconnection and operations support systems.

While evaluating Southwestern Bell’s application to provide interLATA toll service in Missouri, the PSC identified several areas that need further investigation. Four cases were established to determine Southwestern Bell rates, terms and conditions for collocation (the placement of a competitive local exchange company’s equipment in the offices of Southwestern Bell), DSL conditioning (the preparation of telephone lines to allow advanced services such as high-speed Internet access), line sharing/line splitting (the ability to “split” a



consumer's telephone line to allow voice service and advanced services such as high-speed Internet access over the same line) and unbundled network elements (the various components of Southwestern Bell's telephone network a competitive local exchange carrier purchases to provide telecommunications service to consumers). These cases are expected to continue through year-end 2001.

Toll Dialing Parity

Toll Dialing Parity, also referred to as Equal Access, allows a customer to pre-select the long distance company used to carry the customer's 1+ dialed and 0+ dialed long distance calls. InterLATA Dialing Parity had been established earlier in Missouri, and IntraLATA Toll Dialing Parity (ILDTP), sometimes called "Local Long Distance," soon followed in most of Missouri. ILDTP had been received in all remaining Missouri telephone exchanges by December of 2000.

To compensate for changes in their revenue flows or to reimburse certain costs following the implementation of ILDTP, some Missouri LECs applied a temporary surcharge to the rates charged to long distance companies. The revenues from these surcharges are subject to review, and various rates are being adjusted after analysis by the Commission.

Telephone Numbers

During the past year, the Commission ordered telephone number relief in the form of an all services overlay for the 314 (St. Louis) and 816 (Kansas City) area codes. When an overlay is introduced, a new area code "overlays" the existing geographic area. Only new telephone lines receive the new area code. All customers must dial 10-digits to make a local call. The new area codes of 557 and 975 are expected to be eventually introduced in the 314 and 816 area codes, respectively. At this time, due to a decline in the usage of new telephone codes and the return of unactivated blocks of telephone numbers, the introduction of the new area codes has been postponed.

The Commission also ordered rate center consolidation in the Kansas City area. In March 2001, the exchanges of Gladstone, Independence, Parkville,

Raytown, South Kansas City, East Independence, and Tiffany Springs were consolidated into the Kansas City exchange. In addition, the exchange of Nashua was consolidated into the Liberty exchange.

Telephone number pooling is being pursued at the national and state levels. Telephone number pooling refers to distributing telephone numbers to telephone carriers in blocks of 1,000 telephone numbers rather than blocks of 10,000 telephone numbers. The FCC appointed NeuStar as the National Pooling Administrator in June 2001. The FCC has established a national pooling rollout schedule divided into three-month segments. The first round of the national rollout implementation schedule is to begin in March of 2002. Telephone number pooling is expected to be implemented in the 314 and 816 area codes as a means of further extending the life of these area codes.

The Telecommunications Department continues to investigate code usage, reclaiming of unused telephone numbers, and implementation of number conservation.

Relay Missouri

The PSC, in cooperation with telephone service providers throughout the state, implemented 711 dialing to reach Relay Missouri. By dialing 711, Relay Missouri users can now be connected to a Relay Missouri communications assistant to place a call. The toll-free numbers will continue to work, however, for those who prefer to continue to use them. The toll-free number is 1-800-735-2466, the TTY/ASCII number is 1-800-735-2966 and the new Spanish number is 1-800-855-4000.

In March, the Commission lowered the monthly surcharge from 13 cents to 9 cents to ensure that revenues generated better reflect expenses to administer the fund.

New this year is a service called Speech-to-Speech. This allows persons with speech disabilities to use Relay Missouri to place and receive calls. Speech-to-Speech users' calls are routed to a Communications Assistant (CA). The CA then relays the content of the users' call to the called party the same as in any other Relay Missouri call. The numbers to reach Speech-to-Speech directly are 711 or 877-735-7877.

Technical Services

The Technical Services Section has a variety of responsibilities, most notably the responsibility of monitoring the quality of telephone service in Missouri. Quality of service standards for telecommunications companies are identified in Commission rule 4 CSR 240-32. The Commission’s quality of service standards are intended to ensure customers receive a reasonable level of telecommunications service. Compliance with Commission quality of service telecommunications standards is monitored by the submission of quarterly quality of service reports by telephone companies. In addition, audits are performed on company facilities to independently measure a company’s quality of telecommunications service. In the past year the Technical Services Section participated in telephone related cases, providing technical telecommunications expertise. A significant amount of time was also spent providing technical assistance to help resolve consumer complaints involving telecommunications matters.

Future Activity: Missouri Universal Service Fund

The Commission has attempted to address issues related to implementing a Missouri Universal Service Fund. If implemented, the fund would provide financial assistance to basic local telephone companies in order to provide discounted local phone service rates to qualifying low-income and disabled customers. The fund would also provide financial assistance to qualifying basic local telephone companies in serving high cost areas of Missouri. Over the past year, several meetings were held to resolve issues related to the establishment of a Missouri Universal Service Fund.

Investigation into the Costs of Providing Switched Access Services

The Commission has established a docket to investigate the costs of providing switched access services. Switched access services are those rates charged by local telephone companies to long distance companies for use of local telephone company facilities in originating and terminating long distance toll calls. Switched access service rates can impact the toll rates charged by long distance companies because switched access expense can represent a significant cost of providing long distance service. The PSC Staff anticipates filing a report in late 2001. It is anticipated after this report is filed, hearings will be held.



PSC staff inspect a “Remote Terminal” unit belonging to Kingdom Telephone Company near New Bloomfield, MO. Pictured left to right: Ron Whanger, Facilities Manager-Kingdom Telephone Company, and PSC Utility Operations Technical Specialists Mick Johnson and Larry Henderson.

NATURAL GAS

Impact of Higher Natural Gas Prices During Fall/Winter of 2000 - 2001

Unexpected natural gas price increases and the coldest November and December ever recorded prompted the PSC to issue informational materials and general press releases alerting the public to these increases and corresponding high gas bills.

The cold weather and high natural gas prices contributed to record gas bills. The wholesale price of natural gas hit a peak of \$9.98 per MMBtu for January 2001. This price quadrupled the price of natural gas for January 2000. These dramatic price increases caused most LDCs (Local Distribution Company) to make unscheduled Purchased Gas Adjustment (PGA) filings in January. Most LDCs had significant under-collections during this time, causing some to institute the Unscheduled PGA Filing Adjustment (UFA) allowing them to recover \$.05 per Ccf of under-collected gas costs from their customers.

The PSC Staff conducted several public information meetings on these matters in the state including Kansas City and St. Peters. High gas prices prompted the establishment of a number of task forces. The Commission formed a natural gas task force designed to look at the current gas purchasing practices of the LDCs and the way the Commission regulates these practices. In addition, the Governor's office formed a task force seeking answers and remedies relating to the high cost of natural gas.

Natural Gas Commodity Price Task Force

In response to the extraordinary weather and natural gas price spikes of the winter of 2000 – 2001, the PSC created a Natural Gas Commodity Price Task Force on January 23, 2001. This task force was created to investigate the process for the recovery of natural gas commodity cost increases

by LDCs from their customers and to discuss options. Interested parties were invited to apply for membership on the task force and all groups expressing an interest were granted representation. Stakeholders on this task force included: representatives from state and local government, concerned citizens, the PSC Staff, Office of the Public Counsel, the Department of Natural Resources Energy Center, regulated natural gas utilities, municipal natural gas providers and independent consultants.

The task force held six public meetings around the state between April and June of 2001 and four working meetings between April and July of 2001. The result of these efforts was a 100 page report that provided an assessment of what happened to natural gas prices during the 2000 – 2001 winter, the impacts of those prices on natural gas consumers, a policy statement, and 11 recommendations to the PSC.

Incentive Regulation

After extensive hearings, the Commission, on September 20, 2001, voted to let Laclede Gas Company's Experimental Gas Supply Incentive Plan (GSIP) expire. The Commission stated that Laclede

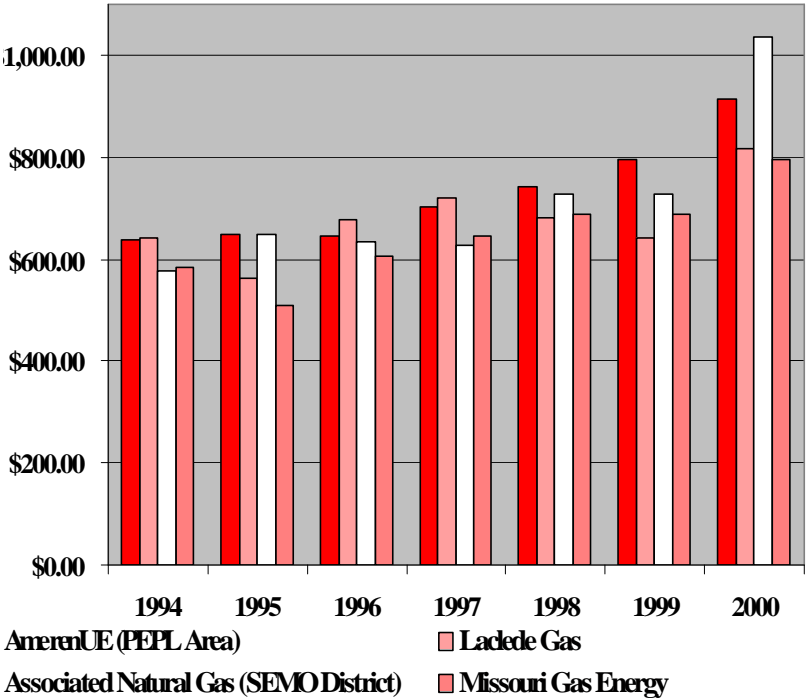
did not sustain its burden of proof that the GSIP strikes a proper balance between ratepayers and shareholders. The goal of the plan was designed to benefit both Laclede and its ratepayers. The Commission stated



Warren Wood, Manager of the PSC Energy Department, speaks at a public meeting held to seek solutions to the hardships experienced by Missouri residents when natural gas prices skyrocketed last year.

Residential Natural Gas Heating

Customer Annual Usage at 120 Mcf (Dth)



that the GSIP generated large profits for Laclede Gas Company last winter, but did not create significant savings on the demand cost of gas for its customers. The Commission indicated that pre-approval as requested by Laclede could discourage Laclede from taking opportunities to secure fixed price contracts

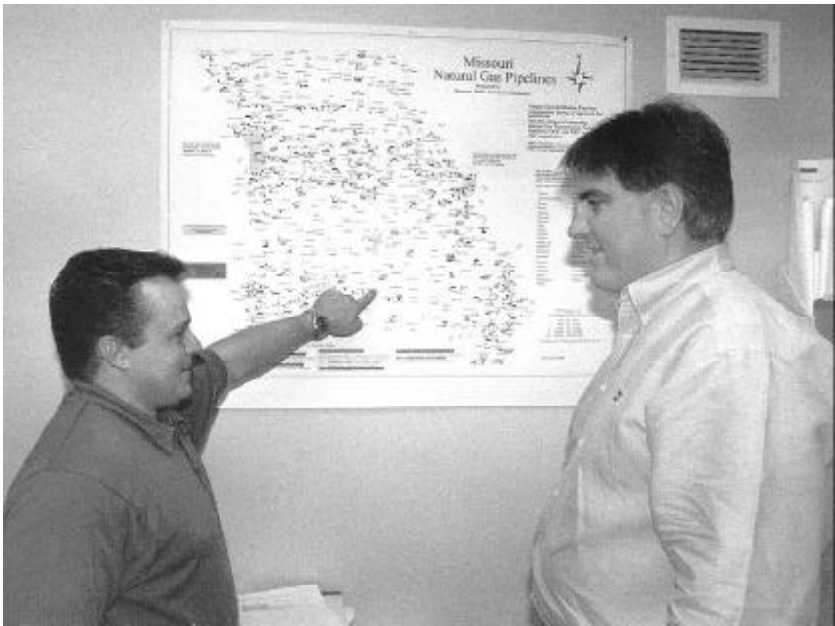
that would produce reasonable price protection for its customers. Laclede's GSIP expired by its own terms on October 17, 2001.

AmerenUE's Rate Case

On February 18, 2000, AmerenUE filed revised rate schedules designed to increase annual natural gas revenues by approximately \$12 million. After reviewing testimony and documents filed in the case including an agreement reached by the parties, the Commission approved an increase of approximately \$4.2 million in annual natural gas revenues on October 17, 2000. Under the agreement, a typical residential customer's bill would increase by about \$3.00 per month. AmerenUE serves approximately 106,000 gas customers in Missouri.

MGE Rate Case

On November 7, 2000, Missouri Gas Energy (MGE) filed revised rate schedules designed to increase natural gas revenues by approximately \$39.4 million a year. The Commission, after reviewing testimony and documents filed in the case which included an agreement reached by parties in this case, approved an annual revenue increase of approximately \$8.9 million on July 5, 2001. Under the agreement, a typical residential customer's bill will increase by about \$1.50 per month. As part of the agreement, MGE will expand its weatherization program, which benefits low-income customers. In addition, a new experimental low-income rate will be implemented in the Joplin area. The experimental two-year program will provide financial assistance to a maximum of 1,000 low-income families. Participants in the experimental plan will receive bill credits of either \$20 or \$40 a month, depending on income.



Mike Loethen (left) and Bob Leonberger of the PSC Pipeline Safety Department examine natural gas service area maps for a pending inspection.

AmerenUE Incentive Plan

On May 31, 2001, the Commission approved an extension, with modifications, of a natural gas supply incentive plan or GSIP for AmerenUE. This extension is intended to be a transition from the old GSIP to the type of incentive plan outlined in the Natural Gas Commodity Price Task Force report. As such, modifications include a cap on the amount of incentives that AmerenUE can receive, a requirement that AmerenUE report its gas supply activities, and an agreement that the Company will not seek an extension to the GSIP, in its current form, after the end of the extension period (May 31, 2002).

Underground Utility Damage Prevention Legislation

During the fiscal year, the PSC Staff worked with Missouri One-Call Systems (MOCS) personnel, numerous underground utility operators, and representatives of excavation contractors to gain support for improved damage prevention legislation. House Substitute for House Committee Substitute for House Bill No. 425 was passed by the 91st General Assembly. This legislation establishes a true one-call system in the state. All owners of underground facilities in

Missouri are required to be members of the MOCS. With one call, a person planning to make an excavation can have all the underground facility owners in the area of a proposed excavation notified and facilities located. Governor Holden signed the legislation

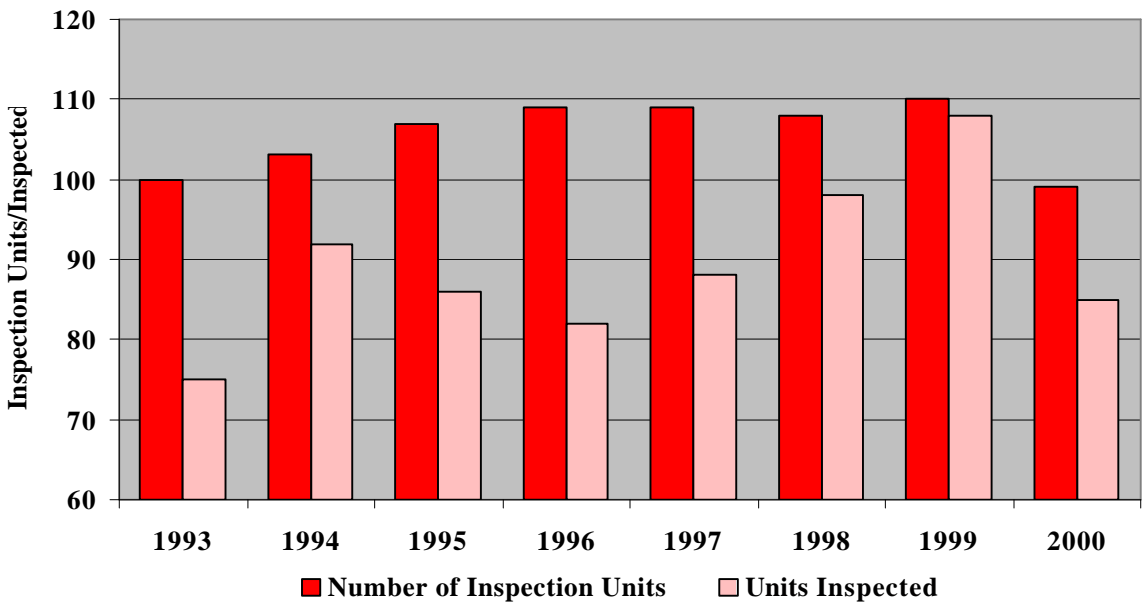
which took effect on August 28, 2001. Prior to this law, owners of natural gas facilities were required to participate in the MOCS. However, underground facility owner participation was voluntary. Universal participation will increase public safety by better protecting Missouri’s underground infrastructure.

Underground Damage Prevention Programs

In 1999, the PSC Staff participated in an unprecedented national study of Damage Prevention Best Practices, sponsored by the Federal Office of Pipeline Safety (OPS). Published in August of 1999, the “Common Ground: Damage Prevention Best Practices Report” contains key elements to successful damage prevention programs. Damage prevention work on a national level continues through ‘Common Ground Alliance’. The PSC Staff participates in this national initiative which works to reduce damage to underground facilities.

A group of Missouri stakeholders formed ‘Missouri Common Ground’ (MCG) with the mission of identifying and promoting the “best practices” to prevent underground facility damage. PSC Gas Safety/ Engineering Staff are a part of the Steering Committee

**Missouri Jurisdictional Gas Utilities
Inspection Units - Gas Safety**





of MCG and have facilitated the formation of several Regional Damage Prevention Councils throughout Missouri. Regional Damage Prevention Councils are intended to provide a forum to promote communication and education, improve policies, improve coordination, form guidelines, as well as enhance Missouri's damage prevention statute.

Missouri Association of Natural Gas Operators

MANGO (Missouri Association of Natural Gas Operators) is a nonprofit organization of natural gas operators. These operators work with the Missouri Public Service Commission's Gas Safety/Engineering



Workers for AmerenUE install state-of-the-art plastic natural gas pipeline as part of a replacement program. The new pipe is expected to eliminate corrosion problems underground.

Staff to enhance operation of natural gas utilities. MANGO works with the PSC Staff to review existing regulations, clarify interpretations, as well as to provide support in developing new regulations. The goal is to work together to address potential hazards such as directional drilling, defective

materials and other various issues that arise, as well as foster continuing dialog to operate the natural gas systems in the state as safely as possible. The PSC Staff and MANGO conduct annual meetings to stay

abreast of current issues, trends in the industry, and other issues affecting the operators' operations. These meetings provide excellent training, learning, and educational opportunities for all involved.

Federal Natural Gas Activities

Decisions by the Federal Energy Regulatory Commission (FERC) directly impact Missouri ratepayers since Missouri's LDCs must use FERC-regulated interstate pipelines for delivery of their natural gas supplies. The PSC believes its involvement in FERC and related judicial proceedings is necessary to ensure that Missouri natural gas consumers receive reliable service at reasonable rates.

There are 10 interstate pipelines directly serving Missouri with an additional six or so upstream pipelines used by Missouri LDCs. The PSC actively participates in many proceedings, company-specific and generic, focusing on those having the greatest importance to Missouri.

The three pipelines providing a majority of the state's natural gas are: Mississippi River Transmission Corporation (MRT), Panhandle Eastern Pipe Line Company (Panhandle), and Williams Gas Pipelines-Central (Williams). MRT serves the eastern side of the state, including St. Louis. Panhandle traverses the central part of the state while Williams serves western Missouri, including the Kansas City, St. Joseph, Springfield and Joplin areas and a limited portion of St. Louis.

Kansas Ad Valorem Tax Refunds

Since 1989, the PSC has been aggressively seeking refunds of Kansas ad valorem taxes unlawfully collected from consumers. During 1994-95, Missouri ratepayers received nearly all of the \$13 million in refunds owed for the 1989-93 time period. The PSC continues to pursue the remaining \$.5 million in refunds due Missouri customers. However, as of June 30, 2001, only \$7.3 million of the estimated \$60 million in additional refunds (for 1983-88) has been received by Missouri consumers.

The PSC has actively participated in all court appeals seeking review of FERC's ad valorem tax orders. On October 29, 1999, the U.S. Court of Appeals issued a very favorable decision (D.C. Cir.

Case No. 98-1227), which upheld FERC’s denial of producer requests for a generic waiver of the accrued interest on refunds.

The decision also required additional amounts be paid by producers, relating to ad valorem reimbursements received by them after October 1983. However, the recovery of refunds from producers has been complicated by the Court’s unfavorable December 9, 1999 decision, which upheld FERC’s method of making several thousand working interest owners liable for their individual share of refunds and rejected the PSC’s challenge to hold a consolidated number of “contract first sellers” liable for the refund obligations.

In October 1999, the PSC filed settlement offers in Williams and Panhandle refund Docket Nos. RP98-52 and RP98-40, respectively. These offers were designed to provide relief to small producers from their refund liability, and to reduce many of the administrative problems associated with FERC’s refund collection procedures.

The PSC, Williams, Missouri Gas Energy and a large number of smaller working interest owners filed a Superseding Settlement Offer on August 7, 2000. This Superseding Settlement sought to eliminate the administrative burdens associated with pursuing 5% of the total refunds owed from over 300 small working interest owners and operators, thereby allowing negotiations to focus on the remaining 35 producers, owing 95% of the refunds on the Williams system. In December 2000, FERC approved the Superseding Offer, with related refunds of \$1.2 million being paid to Williams’ Missouri jurisdictional customers in September 2001

As the result of further negotiations, settlements seeking final resolution of all Kansas ad valorem tax refund issues were filed in the Williams (February 2001) and Panhandle (June 2001) dockets. In both refund dockets, the PSC agreed with provisions settling small-to-medium-sized refund obligations, but opted-out of settlement provisions granting 25% waivers on

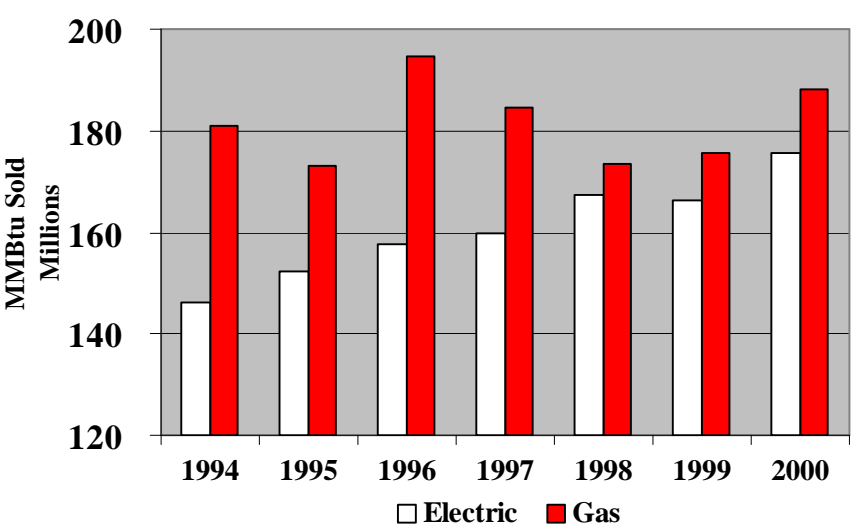
producers’ large refund obligations. If the PSC is unable to negotiate a lesser, more reasonable waiver with the large producers, it will continue to litigate to obtain full refunds from these producers.

Mississippi River Transmission Corporation (MRT)

MRT, in its 1999 annual fuel use and loss rate filing, sought to recover from St. Louis and other eastern Missouri consumers approximately \$10 million of gas losses it incurred during the period November 1993 through June 1998. The PSC opposed the flow through of these out-of-period gas losses. During the pendency of this proceeding, FERC has vacillated as to whether MRT should be permitted recovery of these fuel losses from customers. In a May 31, 2001 order, FERC set this matter for hearing, while also directing parties to also participate in settlement discussions under the auspices of a FERC settlement judge.

In March 2001, MRT filed a rate case seeking a rate increase (18% for Missouri customers), to become effective October 1, 2001, subject to refund. In its protest, the PSC urged FERC to reject MRT’s market-based rates, capacity turnback, and modifica-

Missouri Jurisdictional Electric and Gas Utilities MMBtus Sold



tion to right-of-first-refusal proposals, which the FERC did. The hearing for remaining issues is set to begin during January 2002. Since May 2001, considerable time has been spent on discovery efforts and settlement discussions for this case.

Kansas Pipeline Company (KPC)

A portion of the gas supply for Kansas City is transported over KPC. FERC allowed KPC (in Docket No. CP96-152) to begin charging rates in May 1998, which were significantly higher than what the PSC believed reasonable. As the result of a favorable U.S. Court of Appeals decision in the PSC’s appeal of these FERC orders (Case No. 99-1203), Missouri customers could receive refunds once the FERC issues a final order on remand.

In August 1999, KPC filed a new rate case (Docket No. RP99-485) seeking to maintain or slightly increase the initial rates FERC had approved in May 1998. The PSC used six of its staff to present expert testimony in this case seeking a \$20 million reduction to KPC’s annual cost-of-service. Despite efforts to negotiate a settlement in this matter, the case went to hearing in September 2000. A July 2001 Judge’s decision found significant reductions to KPC’s filed cost-of-service to be necessary. However, rate changes will not occur until FERC issues final orders reviewing various aspects of the Judge’s decision.

Williams Gas Pipelines-Central (Williams)

Resolution with respect to the one remaining issue in Williams’ rate case (Docket No. RP93-109) came when Missouri customers received approximately \$750,000 in refunds from insurance proceeds related to Williams’ environmental cleanup claims.

Also, the PSC actively participated in Docket No. RP01-298, seeking to have minimum delivery pressures defined in Williams’ tariff, so as to protect customers’ service quality. PSC concerns were satisfactorily addressed in a Stipulation and Agree-

ment filed July 30, 2001. Parties await FERC approval of that settlement.

FERC Order No. 637 and Other Proceedings

In February 2000, FERC issued Order No. 637 amending its regulations, policies and procedures to improve the competitiveness and efficiency of natural gas transportation markets. FERC directed pipelines to make changes to their tariffs implementing the capacity release, right-of-first-refusal, penalty, and other aspects of the Order’s provisions.

The PSC continues to monitor the various compliance dockets for pipelines serving Missouri. As of September 2001, only Ozark Gas Transmission (which carries a portion of southeast Missouri gas supplies), has received a FERC order on its compliance filing. The remaining pipeline companies are continuing in efforts to offer settlements with respect to these issues. The PSC filed comments expressing concern with several aspects of the settlement filed by Panhandle on July 31, 2001.

The PSC has also analyzed and submitted comments in several cases where pipeline companies were seeking to implement or modify negotiated rate and service tariffs.



Energy Department Utility Engineering Specialist Greg Macias takes a cathodic protection reading at a natural gas regulator station. The reading measures pipeline voltage potential, which is used to help mitigate corrosion.

ELECTRIC

Missouri Electric Rates

Through the efforts of Missouri’s electric utilities and the PSC, all classes of Missouri customers have benefited from low electric rates. The United States Energy Administration, a non-partisan office in the federal Department of Energy, annually ranks states according to their average rates in cents per kilowatt-hour. For 2000, Missouri’s electric rates for residential, commercial and industrial customers were better than the national average (see tables on this page).

Federal Activity in Electricity

This past year has been one of development of Regional Transmission Organizations (RTOs). In its Order No. 2000, issued in January of 2000, FERC required all utilities under its jurisdiction to file by October 15, 2000, indicating which RTO they intended to join. In Missouri, Kansas City Power and Light Company and Empire District Electric Company indicated that they would join the Southwest Power Pool RTO (SPPRTO). UtiliCorp indicated that on behalf of Missouri Public Service, it would join the Midwest Independent System Operator (MISO). Ameren indicated that on behalf of Union Electric Company, it would join the Alliance RTO (ARTO). Since October, the SPPRTO and MISO are in the process of working out a merger and the MISO and ARTO have reached a settlement agreement that hopes to provide transmission customers with a virtual, single RTO in the Midwest region.

The Commission is highly involved in the development phases of these three RTOs. The formation and development of RTOs is crucial to the scope and structure of regional markets in electricity. This includes two fundamental areas of concern. First is how markets are designed to manage congestion on the transmission network within a region. Second is how the RTOs manage electricity flows across seams at their boundaries.

- Market design issues deal with whether transmission rights will be physical rights that entitle the holder to use the transmission system, or financial rights that

RESIDENTIAL		
State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	14.30	1
New Hampshire	13.84	2
New York	13.32	3
California	10.71	9
Illinois	8.83	14
Iowa	8.35	20
U.S. Avg.	8.16	
Kansas	7.64	24
Arkansas	7.43	29
Missouri	7.12	36
Oklahoma	6.60	41
Nebraska	6.52	42
Kentucky	5.58	49
Idaho	5.26	50
Washington	5.10	51

COMMERCIAL		
State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	12.74	1
New Hampshire	11.39	2
New York	11.19	3
California	10.05	6
Illinois	7.39	19
U.S. Avg.	7.26	
Iowa	6.45	27
Kansas	6.25	33
Missouri	5.97	38
Arkansas	5.82	40
Oklahoma	5.58	42
Nebraska	5.44	45
Oregon	4.94	49
Washington	4.86	50
Idaho	4.20	51

INDUSTRIAL		
State Name	Avg. Revenue (cents/kWh)	State Rank
Hawaii	9.70	1
New Hampshire	9.21	2
Massachusetts	7.75	3
California	7.16	9
Illinois	5.02	14
Kansas	4.47	23
U.S. Avg.	4.43	
Missouri	4.38	25
Arkansas	4.12	32
Iowa	3.89	37
Oklahoma	3.60	43
Nebraska	3.57	44
Montana	2.84	49
Idaho	2.74	50
Washington	2.70	51

Source: US Energy Information Administration - 1999 data

entitle the holder to avoid payments for congestion. FERC Order No. 2000 requires that transmission rights related to congestion management be sold on a market basis, rather than sold at a regulated price and allocated when demand exceeds supply.

- Market scope issues deal with the geographic coverage of an RTO, but more importantly, that major electricity markets are included within a

single RTO. Even if major electricity markets are included within a single RTO, there will still be significant transactions crossing RTO boundaries. Thus, it is also critical to work out agreements among RTOs with respect to providing transmission customers with one-stop shopping and what appears to be seamless markets.

In addition to participating in RTO development, the Commission filed with the Securities and Exchange Commission (SEC) regarding the requirement under the Public Utilities Holding Company Act for approval of a power supply agreement between an electric utility and a subsidiary exempt wholesale generation company (EWG). At issue was whether or not such contracts could avoid state approval by having the contract with an intermediate power marketing subsidiary. The SEC has yet to rule on the Commission's filing.

Merger Activities

In October 1999, UtiliCorp United Inc. (UtiliCorp) and St. Joseph Light and Power Company (SJLP) filed a joint application seeking authority to merge SJLP into UtiliCorp. The Commission approved the merger on December 14, 2000 and the merger between the two utilities closed December 31, 2000. SJLP continues its operations as a separate and distinct energy distribution unit of UtiliCorp.

In December 1999, UtiliCorp and The Empire District Electric Company (Empire) filed a joint application seeking authority to merge Empire into



Energy Department Staff Mike Proctor, Jim Ketter and Lena Mantle review transmission maps and discuss future resource needs with officials from Kansas City-based electricity provider UtiliCorp.

UtiliCorp. In addition to regulatory approvals from the Missouri Commission, approvals were also required from the Federal Energy Regulatory Commission and state commissions in Arkansas, Colorado, Iowa, Kansas, Minnesota and Oklahoma. The Missouri Commission held hearings regarding the merger in September 2000. Because regulatory approvals were not obtained from all commissions by December 31, 2000, UtiliCorp terminated the merger agreement between the two companies.

Earnings Investigation of AmerenUE

As previously ordered by the Commission, the PSC Staff filed a report with the Commission in February 2001 regarding AmerenUE's Experimental Alternative Regulation Plan. In its report, Staff outlined various options available regarding the future of regulation of AmerenUE and recommended that whatever form of regulation that would be applied to AmerenUE in the future, a complete rate review and rebasing of AmerenUE's rates should occur.

On March 8, 2001 the Commission issued an order authorizing the Staff to file, if warranted, an earnings complaint case on July 1, 2001 and not renewing the Experimental Alternative Regulation Plan past the expiration date of June 30, 2001.

Staff filed an earnings complaint case July 2, 2001 against AmerenUE seeking to reduce annual electric revenues in the range of \$213 to \$250 million a year. That case is currently pending before the Commission.

KCPL Restructuring

On May 15, 2000 Kansas City Power and Light Company (KCPL) filed an application with the PSC seeking authority to restructure the Company to create a holding company, a competitive generation company, a regulated utility company and an unregulated subsidiary. Staff met with KCPL, OPC and other intervenors several times regarding the many complex issues regarding restructuring. The parties came to an agreement and presented that agreement for Commission consideration. The agreement was approved by the Commission on July 31, 2001.

Work with Municipals and Cooperatives

The PSC Staff continues to work with electric municipalities and rural electric cooperatives in the state regarding territorial agreements, change of electrical suppliers and safety. The Commission held hearings and issued an order on an application filed by the City of Rolla which requested the Commission assign to them exclusive territory in an area recently annexed by the city which is currently served by Intercounty Electric Cooperative Association. The order required customers who were in the annexed area prior to June 8, 1998 to be served by Intercounty. Any new customers in the area after that date would be served by the City of Rolla.

The Commission also approved a territorial agreement entered into by AmerenUE and Intercounty in September 2000 that designated the boundaries of each service supplier within portions of Gasconade, Maries and Phelps counties.

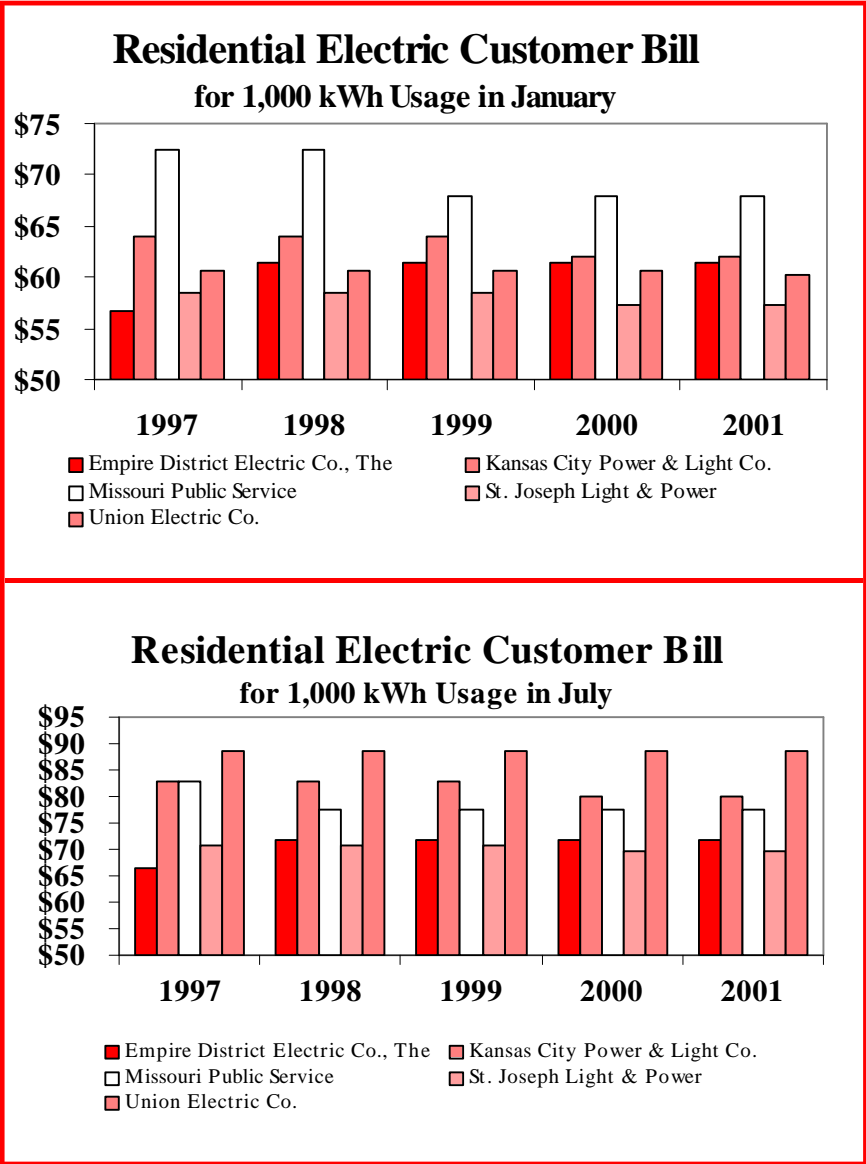
Rate Increase Filings:
Missouri Public Service

On June 8, 2001 Missouri Public Service, a division of UtiliCorp United, Inc. (MPS) filed a rate case designed to increase revenues by \$49.3 million (16.9%) to recover costs associated with a contract for capacity and energy and an

increase in natural gas prices. Hearings are scheduled in January 2002.

Internet Billing

The Commission approved a tariff filed by AmerenUE regarding an internet billing program. This program eliminates postcard billing for qualified customers choosing the option of receiving and paying their electric and gas bills via the internet. Current PSC rules require utility bills be mailed or hand delivered.



Water & Sewer Department

Department Personnel

The Water & Sewer Department consists of seven professional/technical positions split into two sections, Rates and Engineering. Although the Department is split into the Rates and Engineering Sections, staff members work closely together as a team and it is not unusual for them to share responsibilities. As with most departments within the Commission's organizational structure, the Department's management personnel carry out not only their administrative duties, but are also involved in a great deal of the technical and analytical case work that falls within the scope of the Department's responsibilities. As a group, the Department's staff members have compiled approximately 120 years of regulatory and/or water and sewer utility work experience, with much of that experience having been gained by their work in the Department.

Department Responsibilities

By law, the Commission is responsible for regulating the rates and fees charged by and the operating practices of the privately owned water and sewer corporations that operate in Missouri. The Water & Sewer Department helps the Commission fulfill its responsibilities by providing technical expertise to the Commission on matters relating to water and sewer system operations and the tariffed rates, charges and services of regulated water and sewer companies. The general objectives of the Department are twofold. The first objective is to ensure that regulated water and sewer companies provide safe and adequate service to their customers at rates that are deemed just and reasonable. The second objective is to ensure that companies provide their service according to applicable Commission rules and procedures and the provisions of their Commission-approved tariffs. Specific aspects of the Department's work include:

- Evaluating company tariff filings to determine whether proposed new/revised tariff provisions comply with applicable Commission rules, policies and state laws;
- Reviewing existing company tariffs to determine whether their provisions continue to comply with applicable Commission rules, policies and state laws, as they change over time;



Water & Sewer Department Assistant Manager, Jim Merciel, evaluates the performance data in the control room of a Missouri water treatment plant.

- Participating in all formal and informal rate filings from the perspective of evaluating the appropriateness and design of proposed rates and charges, the adequacy of system operations and the appropriateness of and/or need for system plant additions that have been or will be placed in service;
- Participating in the review of all applications for new/expanded certificated service areas from the perspective of evaluating the need for the service proposed, the reasonableness and design of proposed rates and charges, proposed system design, plans for system operations and overall project feasibility;
- Participating in the review of financing applications to determine the appropriateness of and/or need for projects being financed, as necessary;
- Conducting regularly scheduled field inspections to determine whether company facilities and overall system operations comply with applicable Commission rules, company tariff provisions and proper operational procedures.
- Interacting with company owners/operators regarding operational and technical matters;
- Investigating customer complaints and responding to customer inquiries concerning matters related to rates, charges, system operations and quality of service; and
- Providing expert testimony before the Commission on water and sewer cases pending before it, and providing technical advice to the Commission in its rulemaking actions on water and sewer matters.

- Interacting with company owners/operators regarding operational and technical matters;
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Interaction With The Department Of Natural Resources

Of the utilities regulated by the Commission, water and sewer utilities are unique in that another state agency, the Department of Natural Resources (DNR), also has significant jurisdiction over them. Specifically, the DNR’s jurisdiction covers the area of water and sewer utilities’ compliance with applicable federal and state environmental and water quality laws and regulations. While the Commission’s rules provide for general oversight regarding water quality and sewage treatment standards, the Commission relies upon the DNR to determine whether companies are complying with applicable federal and state environmental and water quality laws and regulations.

Because of the overlapping jurisdiction between the Commission and DNR, staffs of both agencies attempt to work cooperatively in achieving the agencies’ respective missions. For some time, the two agencies have shared information regarding companies for which the agencies share regulatory responsibilities, under the provisions of a Memorandum of Understanding (MOU) between the agencies. However, the Commission and the DNR Director have recently pressed for increased cooperation and coordination on overlapping matters such as the DNR’s issuance of construction and operating permits and the Commission’s utility service area certification process. As a result, the agencies have recently completed

and signed a new MOU, which, among other things, includes provisions that will result in the streamlining of the application processes for new water system construction, permitting and certification and which will better coordinate the agencies’ respective review and approval processes for such systems. It is anticipated that such efforts will eventually extend to the permitting and certification of all water and wastewater systems for which the agencies share jurisdiction.

PSC Regulated Water & Sewer Companies

The Commission currently has jurisdiction over 59 sewer companies and 72 water companies, which operate in various locations throughout the state. The tables set out on the following page show the distribution of the number of companies based upon the number of customers served, using the most recently available customer numbers. As is shown in these tables, the vast majority of the Commission’s jurisdictional water and sewer utilities are very small, which presents unique situations with which the Commission and the Staff must deal. Additionally, the Commission’s recent approval of a merger case involving the three largest regulated water companies will result in those three companies becoming one.



PSC Staff members inspect chlorine disinfection flow controllers at a Missouri water treatment facility.

Regulated Sewer Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
1,000 & Up	2	2,594	22.73
500 - 999	3	2,163	18.95
200 - 499	8	2,942	25.78
100 - 199	17	2,577	22.58
Less Than 100	27	1,136	9.95
TOTALS	59	111,412	100.0



An alluvial water well near the Missouri River.

Regulated Water Companies

Customer Base	Number of Companies	Customers Served	% of Total Customers Served
100,000 & Up	1	306,000	68.8
50,000 – 99,999	1	95,998	21.58
10,000 – 49,999	1	10,800	2.4
5,000 – 9,999	1	6,726	1.51
2,500 – 4,999	1	4,697	1.06
1,500 – 2,499	2	4,734	1.06
750 – 1,499	5	5,316	1.2
500 – 749	5	3,119	0.7
200 – 499	10	2,945	0.66
100 – 199	22	3,227	0.73
Less Than 100	23	1,146	0.26
TOTALS	72	444,758	100

MANUFACTURED HOUSING AND MODULAR UNIT PROGRAM

The Commission regulates new manufactured homes and modular units sold in the state. Through the Manufactured Housing and Modular Units Program, the PSC acts as the state administrative agency to the United States Department of Housing and Urban Development (HUD). HUD is the federal agency that regulates the manufactured housing industry in the United States.

The PSC has a toll-free hotline for consumers who have questions and/or complaints regarding manufactured homes or modular units. The toll-free number is **1-800-819-3180**.

During the 2000-2001 legislative session, lawmakers passed Senate Bill 317 effecting the Manufactured Housing and Modular Unit Program's used home enforcement regulations. SB 317 removed Commission jurisdiction over code compliance and installation enforcement on all used manufactured homes and modular units, except for used modular units used specifically for educational purposes.

The Program also experienced a negative impact during fiscal year 2001 involving economic trends within the manufactured housing industry. Due to a thriving industry during the past decade, the industry over produced and obtained large volumes of inventory. Many manufacturers and dealers suffered when home sales dropped dramatically after the industries interest rates increased, which shifted sales to a repossession sales oriented situation. Subsequently, manufacturers and dealers were left with large inventories, and many have gone out of business. This impact has decreased the number of manufacturer and dealer registrations the Program administers.



Gene Winn, Manufactured Housing Inspector/Supervisor, inspects the insulation on a new manufactured home.

ANNUAL STATISTICS FOR FISCAL YEAR 2001

Registered Manufacturers:	235
Registered Dealers:	369
Homes Sold (new & used):	10,828
Consumer Complaint Inspections:	322
Dealer Lots Inspected:	184
Modular Unit Seals Issued:	2,420
Modular Unit Plans Approved:	1,349